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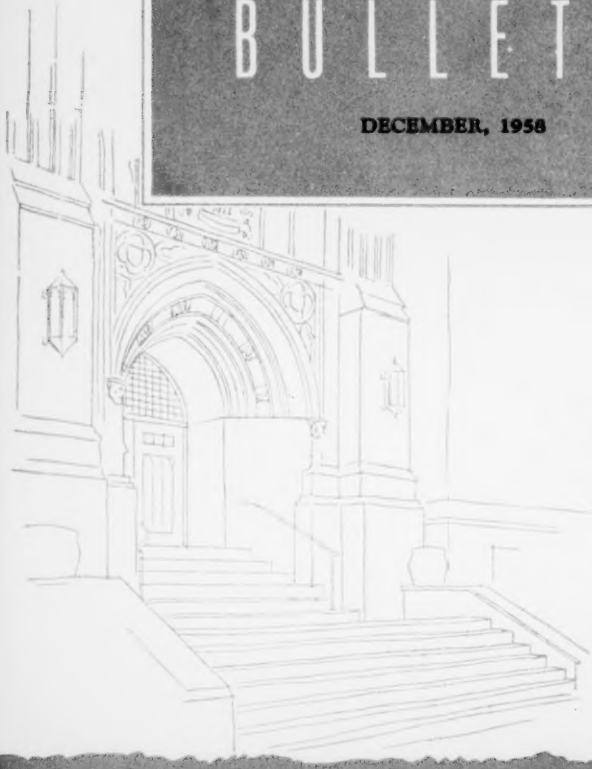

TEMPLE UNIVERSITY
SCHOOL OF BUSINESS AND PUBLIC ADMINISTRATION

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DECEMBER, 1958

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THE Bureau of Economic and Business Research of the Temple University School of Business and Public Administration was organized to provide a vehicle for stimulating and coordinating analytical studies. Its primary objectives include (1) service to the alumni as well as to the faculty and students of the University by bringing to their attention pertinent developments in the world of business, and (2) service to business and government by making contributions to the solution of specific problems. To this end, the Bureau both carries on specialized research and publishes quarterly the **Economics and Business Bulletin**, containing some of the significant results of its current studies.

The reader's appraisal of the **Bulletin** and comments upon it are solicited. The Bureau also will appreciate receiving suggestions and requests for particular studies.

The opinions and views expressed in the articles contained in this **Bulletin** are those of the writers and cannot be construed as the official opinions or policies of the School of Business and Public Administration.

The Role of Management Engineering in the United States Marine Corps

by SAMUEL M. WILSON*

The record of the United States Marine Corps demonstrates a dynamic philosophy and a high degree of proficiency in planning, organizing, and directing combat operations. It also suggests that its leaders have been successful in combining firmness with flexibility in policy-making and action. Although management engineering activities are functionalized, each non-commissioned and commissioned officer is expected to participate and cooperate in this endeavor. This article gives some insight into management engineering and presents some of the accomplishments which have been made through its application in the Marine Corps.

WHEN discussing and analyzing the primary factors contributing to the accomplishments of the Marine Corps, one's attention has been focused almost entirely on trained manpower, adequate supplies, and equipment, and the victorious engagements and battles which have been fought since 1776. Management, the "prime mover" which is the motivator of all other factors leading to success has sometimes gone unnoticed.

Authorities have stressed the fact that the history of any military or private organization is largely the history of its leaders (management); and if its management is first-rate, the organization will be first rate. In other words, the functions of management, whether in military or private organizations, are paramount in its successful operation. When referred to as a function, management is generally defined as the art and science of planning, organizing, commanding, coordinating, and controlling all of the factors and activities pertaining to the operation of an organization — in this case, the Marine Corps.

In recent years, there have been changes in the management philosophy and techniques which parallel those significant advancements which have been made in the fields of weapons and equipment. These changes are associated with the political and military situation of the world, with the role which the Marine Corps has been assigned and the advancements being made in the science of military management. The purpose of this article is to describe and illustrate the role which management engineering presently is playing in the Marine Corps.

THE MEANING OF MANAGEMENT ENGINEERING

When the Marines demand a better bridge, road, or building, it calls for its civil or construction engineers. The Marine Corps gets better electronic equipment through its electrical engineers. Similarly, management engineers are providing advancements in the organization and administration of the Marine Corps.

Management engineering, like other service functions, is essentially advisory or "staff" in nature. When performed on a formal basis, it is a deliberate method of determining better internal organization and improvements in the use of materials, equipment, systems, and manpower. However, it is important that all management personnel perform many management engineering functions as they make improvements on their jobs from day to day.

Management engineering is a modern function in military administration. It has been used in private industry since the 1890s when Frederick W. Taylor found better methods for handling pig iron and shoveling coal at the Bethlehem Steel Company. He also established a

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functional planning department for the plant and made other significant contributions in the area of internal organization. Frank and Lillian Gilbreth were pioneers in management engineering by developing basic principles of motion and methods economy. In addition, Dr. Lillian Gilbreth also specialized in the psychological function of educating both management and the rank-and-file to demand and accept improvements. Some recent advancements in this field are being pursued under the caption of "Operations Research." Johns Hopkins University has been influential in promoting the use of this concept which stresses the importance of management planning for future operations on the basis of well-defined problems and the use of scientific research in their solution.

The management engineering function stresses the importance of management. It is becoming a symbol of management improvement. It reveals the impact which good management has on an organization, an impact which was so vividly stated by Andrew Carnegie when he said,[1]

> "Take away our factories, take away our trade, our avenues of transportation, our money. Leave us nothing but our organization (i.e. our Command or Management) and in four years we shall have re-established ourselves."

Specific Functions of Management Engineering

Although management engineering is related to budgeting, accounting, cost accounting, manpower management, space, equipment and layout surveys, production planning, and other management functions, this article concentrates on the primary functions of organizational analysis, work simplification, work measurement, and paperwork control.

Organizational Analysis

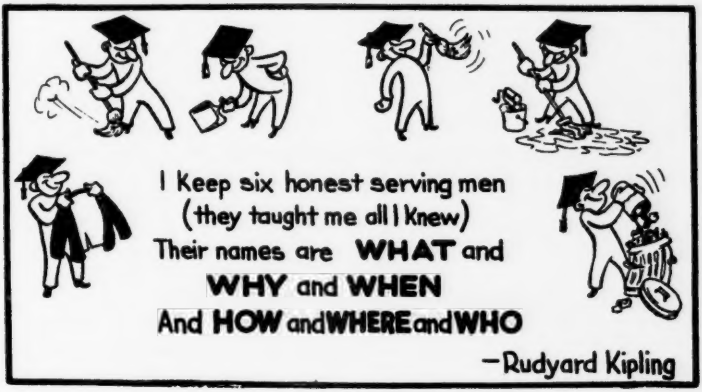
Organization is the internal framework through which Marine Corps management does its planning, conducts its operations and accomplishes its purpose. The Marine Corps has grown into a highly complex organization. It is equal to about one-half the size of General Motors, the world's largest manufacturing concern. The Marine Corps is becoming more and more "functional" in composition and is designed along both "line" (command) and "staff" lines. There are scores of basic principles which should be used when establishing and operating an organization like the Marine Corps. However, the basic problems of operation center on a few principles relating to authority and responsibility, the concept of specialization, the qualification of its leaders, the development of good communications systems, and the informal relationships which develop over a period of time.

Organization analysis is the management engineering technique which assists Marine Corps leaders at all levels in developing a more effective organization. When conducting an organization analysis, the management engineer must recognize and study every important facet that will contribute to the improvement of the internal organization. After the interpretation of the facts, he recommends improvements which require "command" action for their implementation.

An example of an important improvement in organization in the Marine Corps involves a unit familiar to many junior officers, i.e. the Basic School at Quantico, Virginia. Recently, after an analysis of organizational requirements, the Basic School was consolidated at Camp Upshur. This consolidation materially reduced the requirements for supporting personnel and equipment for the Basic School and eliminated a large amount of lost time which resulted from transporting instructors and other supporting personnel from that area to outlying camps where all training was conducted. As a result of this reorganization the personnel complement of the Basic

[1]L. P. Alford and H. Russell Beatty, **Industrial Management**, (rev. ed.), Ronald Press, New York, New York, 1951, p. 130.

EXHIBIT 1


I Keep six honest serving men
(they taught me all I knew)
Their names are WHAT and
WHY and WHEN
And HOW and WHERE and WHO
—Rudyard Kipling

School was reduced from 186 officers and 857 enlisted personnel to 163 and 739 officers and enlisted personnel. Such savings are important and reflect the strides which the Marine Corps is making toward greater efficiency.

Work Simplification

In work simplification, attention is concentrated primarily on the way in which the individual job is being performed or the way in which projects or programs are carried out. In many instances the Marine or civilian performing the job may be asked to contribute to its improvement. Such details as the hand and body motions, the pattern or sequence of motions, holding devices, gravity feeds, automatic ejectors, and the layout of the workplace are studied with the idea that some improvement can be made.

In the broader areas of work simplification the management engineer gets involved in procedures, systems, physical layout, flow of materials and paperwork, materials handling, and even production processes. After the accumulation of facts, the management engineer must really "turn his imagination loose" if the total possible improvements are to be derived. In work simplification, the basic idea is to accomplish improvements by either eliminating all or part of the job, changing the sequence of the motions or methods of making the job easier to perform.

An illustration of the significant improvements which are being derived from work simplification is the case of the Marine's individual record card. In the past an individual record card was required each time a Marine transferred to a unit outside the jurisdiction of each machine records installation. About 222,000 such transactions occur annually. By careful study of this procedure it was determined that the individual record card need be prepared only in the event of enlistment, re-enlistment, or transfer between establishments of the Marine Corps. This relatively simple improvement in a paperwork procedure will save the Marine Corps more than $70,000 a year.

The contribution, shown in Exhibit 1, by a well-known author, furnishes the basic questions which every analyst must ask at each step when he is performing a work simplification study. After asking these questions, his work can never be complete until he has an adequate answer to each question.

Each year thousands of improvements in work methods and procedures, big and little, are made in the Marine Corps. Many of these improvements are made

without the aid of management engineering, but by other personnel who are constantly seeking to solve their particular problems. For example, some ingenious people at the Supply Center, Barstow, California, observed that they were shipping only one 27-foot landing vehicle (LVT) on railroad flat cars which are about 53 feet in length. They worked out a method whereby one end of each LVT could be blocked up, thus permitting placement of two on each flat car. This procedure is expected to save the Marine Corps about $100,000 annually.

Work Measurement and Wage Incentives

The specific purpose of work measurement is to determine the amount of time needed to produce a unit of a particular type or category of work. Establishing a time-volume relationship of work is not a simple task because of the many differences and variations in types and quality of work and in the methods and conditions under which the work is performed.

The Marine Corps has used several approaches to work measurement. In the Clothing Depot in Philadelphia, stop watches have been used for taking actual time studies. Motion-Time-Measurement (MTM), a synthetic predetermined time standard system for use on manual operations, has also been used to determine the time required to do specific jobs in cutting and sewing of uniform clothing.

Statistical and historical records are being used to determine the standard time needed to accomplish broader categories of work such as the operations performed in fiscal accounting, maintenance and repair, personnel administration, and supply operations. Less refined but even broader performance standards and guidelines are established by the Bureau of the Budget for use in the Marine Corps and throughout the Federal Government.

Work measurement is being used as a multi-purpose tool. In Philadelphia, the Clothing Depot has hundreds of civilians on a direct wage incentive system which is based on work measurement standards. Work measurement is used by the Marine Corps to allocate personnel and to evaluate manpower utilization. Another use is demonstration of actual savings when recommending changes in methods, materials, machinery, organization and layout.

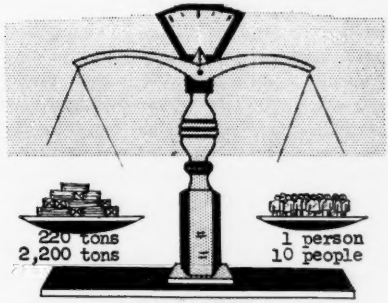
One of the "acid tests" in making decisions associated with the use of manpower is to show a **before** and **after** analysis of performance rates, i.e., time required to accomplish a unit of work. Moreover, work measurement is used to some degree in making practically every decision which is based on fact rather than fiction.

Many improvements have been made by units which have developed appropriate work measurement plans. When an officer has facts about the number of man-hours his organization is using and a tangible count of the work units being produced, he is in a much better position to control his operation. For example, one machine records installation officer decided, after reviewing his performance reports, that there would be better utilization of both his personnel and his equipment if some of the reports he was making were rescheduled from an end-of-month basis to a mid-month basis. As a result, an average of 6,000 overtime man-hours per month were eliminated.

In another instance the head of a procurement office was shown performance figures which indicated an unreasonable number of hours spent for each contract which was written, although the work measurement data did not reveal these specific difficulties. Following this report, the application of work simplification techniques to some of the most time-consuming steps soon showed areas for improvement. After a short time, nineteen persons were doing the work previously handled by twenty-six employees.

In the case of a precise work measure-

EXHIBIT 2



BALANCE
Workload and People

ment effort, engineered performance standards (EPS) for practically all operations in the clothing factory at Philadelphia have been established. The first year the application of these standards, together with improvements in methods and procedures, permitted a reduction of approximately twenty percent in operating personnel and resulted in an estimated savings of $800,000 annually.

Exhibit 2 illustrates the concept of work measurement and how it is being used to keep workload and manpower "in balance" with each other.

Paperwork Management

Like the management of all modern organizations, Marine Corps management plans, directs, coordinates, and controls its operations largely through the instruments of communications. The bulk of communications is represented by some form of paperwork. During an average year, over ten million pieces of mail enter and leave Headquarters Marine Corps alone. These represent many reports, letters, and other materials. Much of this paperwork is of such a nature that standard forms are used, and systems have been established for designing, coding and handling each form.

The primary functions of paperwork management are to reduce the volume and cost and to increase the quality of paperwork by applying tested management engineering techniques to such problems. The most recent Hoover Commission Task Force on Paperwork Management, in making an exhaustive study of government paperwork problems, recommended the establishment of a government-wide program. The Marine Corps has established a forms and reports management program as well as office machines and equipment control at Headquarters and in several field activities.

Blank forms and reports have been under close scrutiny at Marine Corps Headquarters for some years by means of a formal and continuing control program. The objectives of this program are the elimination of duplicate forms and reports, to insure that forms are functionally designed and technically suitable for use, to make periodic reviews, to study proposals for new and revised forms, and to insure economic production and distribution. Report control further insures that clear and simple reporting instructions accompany the reporting requirements, that reports contain only necessary information and are submitted at proper intervals. For example, merely changing a reporting requirement from monthly to quarterly can result in spectacular man-hour savings.

Three forms (of many in this category), namely, the Request and Issue Slip, the Vehicle Repair Order, and the Personnel Accounting Discrepancy form, provide examples of specific management improvement and economy through forms control. All of these forms were standardized at Marine Corps Headquarters and prescribed for field use. This eliminated the reproduction by field activities of an estimated 341 local forms serving essentially the same purposes. Procedures are being standardized throughout the Marine Corps in many operations requiring paperwork, and economies are being made by large quantity and consolidated procurement of these forms at the Headquarters level.

Savings are also being effected at

Headquarters by review of blank forms prior to reprint. For example, during a forms management review in which blank forms requested for reprint amounted to 62 million printing units, only 36 percent of this quantity were approved for printing in their existing format, 32 percent were revised, 27 percent were not printed for a variety of reasons, (obsolescence, excessive quantities requested, and transhipment of material to equalize stocks), and for five percent substitutions were made because of supersession or incorrect identification. The 32 percent revision is an indication of the "mortality rate" of blank forms. This is brought about by constantly changing requirements in operating procedures and demonstrates the necessity for an aggressive and continuing analysis of operations through forms and reports control.

MANAGEMENT ENGINEERING IN THE OTHER SERVICES

The Marine Corps does not stand alone in the development of management engineering. All of the other military services have made a great deal of progress by using management engineering techniques similar to those being promoted by the Marine Corps. Although the techniques are important, they reflect a change in the philosophy of military leadership which overshadows the use of the techniques, per se.

The Air Force gives us an excellent example of the combined and integrated use of several management engineering techniques in its newly developed system of Controlled Maintenance Engineering Program. This program has been developed over the past four years. It involves the entire area of planning, scheduling, and performing field and operational maintenance on all types of aircraft. A large part of the program was developed at the Air Force Base at Dover, Delaware.

This pilot installation was referred to as the Air Force Field and the Organizational Maintenance System and was designated simply as AIR FOAM. The AIR FOAM program was a successful attempt to combine all of the elements of good management into one system of planning and executing maintenance work on aircraft. It involved the development of an industrial engineering program for performing methods and time studies on all of the maintenance jobs. Better work areas and plant layout were also included. A formal system of planning, scheduling, and follow-up on maintenance work was introduced, with the idea that better scheduling on a cycle basis provided the basis for fuller utilization of facilities, manpower, and tools. The objective was improved efficiency and effectiveness in aircraft maintenance, i.e. lower maintenance cost per flying hour. This program generated other benefits such as the development of mortality and usage tables for aircraft parts, better scheduling of parts requirements, a more detailed history of aircraft experience, and a performance effectiveness report covering the manpower used in aircraft maintenance.

CONCLUSION

Management engineering is playing a significant role in the operation of the Marine Corps and the other military services. It reaches into practically all areas of military management. Improvements are being made particularly through organization analysis, work simplification, work measurement and paperwork control, although management engineering is not limited to these techniques.

In the future, those who are functionally involved with management engineering must depend to a greater degree on a total unified effort by everyone in the Marine Corps, regardless of their speciality or assignment. The research approach and the scientific method are not limited to one group or any particular problem area. With proper development they can and should be used in training, budgeting control, cost accounting, and cost control, as well as in every other activity of the Marine Corps.

Vertical Integration in the Steel Industry

by JACK E. GELFAND*

This article deals with the problem of vertical integration by the steel industry into fabrication lines. Specific cases are reviewed to supply clues to the motives behind this movement in this basic industry.

THE growth in size of modern industry is for the most part a reflection of the economies to be gained from large-scale production. These result from the organizational and technological extension of the principles of specialization and the division of labor. As the scale of operations increases, economies of scale operate to reduce the average costs of production. However, diseconomies that modify the benefits of the increasing scale of operations soon begin to appear. The optimum size of plant results when the benefits of further growth in the size of the production unit disappear. In other words, a point is reached where the incremental losses due to the diseconomies of scale completely offset the incremental benefits arising from the economies of large-scale production.

Conditions of demand in an industry may be such that the most profitable scale of operations requires a plant larger than the optimum size. However, this would only be a temporary condition since long-run adjustments would take place in the industry to correct it. Profit advantages due to large size, other than for the reasons mentioned above, stem from the exercise of economic power.

The steel industry has exhibited a pattern of growth by vertical integration. It has, in the past, taken over facilities to engage in progressive stages of production from the mining of iron ore through the manufacture of pig iron, steel ingots, semi-finished, and finished steel products. Some members of the industry have even gone into steel fabrication, a stage of production generally conducted by relatively small-scale producers.

Vertical integration may be one way of extending the principles of specialization and the division of labor where the same process must be performed in the progressive stages of production or where distance is a factor. On the other hand, where the stages of production are not linked technologically, vertical integration may result in a reduction in specialization, in which case operating costs for integrated operations may be expected to be higher than for nonintegrated operations.

There is evidence that technological advantages lie behind the integration process from the iron-ore smelting operation through the rolling of finished steel products. It is questionable whether or not the same advantages can be claimed for integration into the fabrication stage.

In searching for the most plausible motives behind the forward integration of certain companies in the steel industry into fabrication fields, this paper first reviews the technological requirements for integration in the steel industry and then describes certain trade practices which have from time to time prevailed and which may throw some light on the question. Inferences are drawn from the technological conditions of the industry and an analysis of the trade practices which suggest that the wielding of economic power rather than technological advantage may be the dominant motive behind the integration of steel operations into fabricating fields.

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INTEGRATION INTO FABRICATION BY ROLLING MILLS

At the time of the formation of the United States Steel Corporation in 1901, the American Bridge Company, which itself was the result of horizontal integration, was taken in as a member of the combination. This large fabricator and erector of steel structures is still the major structural steel fabricating and erecting arm of the United States Steel Corporation. However, as late as 1930 it still could be said that, in general, vertical integration in the steel industry stopped at the finished rolled steel product stage.

In 1930 the Bethlehem Steel Corporation began to acquire facilities for fabricating and erecting steel structures. After a relatively short time it had absorbed McClintic-Marshall Corporation, Levering and Garrigues Company, Hay Foundry & Iron Works, Hedden Iron Construction Company, and the Shoemaker Bridge Company. According to one observer, nearly 50 percent of the structural steel fabricating capacity was owned by integrated steel producers by 1931.[1]

The United States Steel Corporation, on the other hand, did not begin to acquire structural steel fabricating facilities beyond American Bridge until 1936 when it acquired the Virginia Bridge & Iron Company. This acquisition provided it with fabricating plants in Virginia, Alabama, and Tennessee, having an annual fabricating capacity of about 100,000 tons of finished structural steel. After World War II Consolidated Western Steel Corporation, the largest steel fabricator on the West Coast, was acquired by United States Steel Corporation as a "necessary adjunct" to the Geneva Steel plant at Provo, Utah. This acquisition was later to become the basis for the Sherman Act case, U. S. v. Columbia Steel Company.[2]

Following in the footsteps of the two largest steel producers, the Republic Steel Corporation and the Jones and Laughlin Corporation, the third and fourth largest steel producers, respectively, acquired steel fabricating facilities. The latter two companies, however, have not acquired proportionately as large a share of the fabricating facilities as have their two larger competitors.

Steel Technology

The steelmaking process involves the smelting of iron ore into pig iron, the refining of pig iron into steel ingots, and the rolling of the ingots into semi- and finished steel products. In the early history of steelmaking each separate process was performed by an independent business firm. Thus, blast-furnace operators bought iron ore and coal and turned these into pig iron to be sold to steelmakers. The steelmakers produced ingots which in turn were sold to the rolling mills which processed the ingots into semi-finished blooms, billets, and slabs and then sold them to finishing mills, or continued to roll these semi-finished products into finished sheets, plates, bars, and other products.

Today there are still examples of independent producers operating in only one of the many progressive stages in the steelmaking process. Each stage requires that the metal be heated in order for the process to be completed. Where appreciable distance separates two contiguous processes, the metal cools in transit and must be reheated in order to be ready for the next process. In order to avoid this waste, integrated steel operations feed molten pig iron into the open hearths directly from the blast furnaces. When the steel ingots are cast, they are placed into soaking pits again to bring them to the temperature required for rolling into semi-finished and then finished shapes. The technological economies of integration

[1] H. A. Fitch, "A Declaration of Independence for the Fabricated Structural Steel Industry," an address before the members of the American Structural Steel Institute, 1931.

[2] U. S. v. Columbia Steel Company, 334 U.S. 495.

in the steel industry thus result mainly from the savings of fuel and transportation costs.

Technological efficiency lies behind the integration of the stages of production from the blast furnace to the rolling mills; it cannot, however, explain the ownership of fabricating facilities by steel producers.

By 1950, there were 54 fully integrated steel plants in the United States. Each plant was capable of undertaking all the stages of steelmaking from the smelting of pig iron to the rolling of finished products. Technological conditions in the steel industry were such that the most efficient size of plant was estimated to be one that could produce approximately 1 million tons of ingot steel annually.[3] Of the 54 integrated plants in existence in 1950, only a handful were relatively small, 0.5 million to 0.9 million tons ingot capacity. The vast majority were in the range of 0.9 million to 5.0 million tons of steel ingot capacity annually.[4]

Mr. Ernest Weir, Chairman of the Board of National Steel Corporation, has maintained that,

> "We have been able to sell our products without going into fabrication lines, and I have always felt that we could use that money to better advantage in the steel industry than in fabricating."[5]

The technological advantages of integrating appear to stop at the steel-rolling stage, yet integration has in many instances gone beyond these bounds to enter into the fabrication of steel products. With the absence of technological efficiency, the forward integration of steel companies into the fabrication field is questionable in the light of the dilution of the benefits of specialization and the division of labor.

Noncompetitive Practices in the Steel Industry

If forward integration into the fabricating field does not help to reduce production costs, why have the larger steel producers been taking over fabricating enterprises on a large scale ever since the early 1930s?

One answer may be that fabrication is more profitable than steelmaking; therefore, it would be a more profitable outlet for the investment of idle funds. If this were true, it would only be a short-run condition since free entry of firms into the industry would tend to bring fabrication profits down to normal levels. If this condition were to persist over a period of years, then the excess profitability of fabrication would have to be due either to profits of innovations (which probably is not the case, as fabrication processes have not changed radically) or to monopoly powers exerted over independent steel fabricators due to the integrated steel companies' control over the fabricators' steel supplies.

Some evidence to support the latter contention — at least during periods of "tight steel supplies" — may be obtained from the testimony of Mr. J. Philip Murphy, President, Judson Pacific-Murphy Corporation, Emeryville, California, and Mr. Kenneth M. Keegan, General Manager, Independent Iron Works, Inc., Oakland, California, before the Celler Committee on the Study of Monopoly Power in 1950.[6] Their statements portray the difficulties encountered by independent steel fabricators who have had to compete for steel fabricating jobs with the suppliers of structural steel.

Mr. Murphy, in reply to a question comparing the general efficiency and over-all capacity of his firm with that of the fabricating facilities of the large integrated corporations, stated:

"We have a large enough shop

[3] Testimony of Sidney D. Williams before the Sub-Committee on the Study of Monopoly Power, Committee of the Judiciary, H. R. 81st Congress, 2nd Session, Sec. No. 14, Part 4-A p. 752; hereafter cited as **Celler Hearings.**

[4] **Ibid.** Since Mr. Williams' testimony, many of these integrated steel plants have undergone expansion in capacity so that there are even fewer smaller plants and more large plants. Moreover, it is expected that the average size of the large plant has expanded.

[5] **Ibid, p. 817.**

[6] **Ibid,** pp. 343-359.

> capacity; as a matter of fact, our shop capacity in the Bay area exceeds that of Bethlehem Pacific Coast Steel Corporation. We have a more efficient shop and a shop with more capacity in it."

Subsequently, when he was asked if the decline in his business was the result of a decline in sales in the area, Mr. Murphy answered, "No, the present volume of fabricated materials is approximately the same." [That would be for the Pacific area.] He explained that the decline in his volume of business is "the result of the independent getting less of the business."

Mr. Keegan, in his testimony to the same Committee, agreed with Mr. Murphy and also pointed out the inequities of having to compete on the fabricating level with suppliers of structural steel.

Mr. Robert M. Koch, Vice-President of the Karl Koch Erecting Company, raised the same point before the Senate Small Business Committee in the immediate postwar period when he complained that most of the larger erectors in the country have gone out of business. The competition is too keen where the only jobs you can get are jobs which the big companies do not want.[7] Mr. Koch in his testimony before the Committee explained that the Karl Koch Erecting Company of New York, of which he was vice-president, attempted to obtain the contract for steel erection at a Brooklyn hospital which was to be built by the Veterans Administration. They found, however, that despite the fact that the Karl Koch Erecting Company was the low bidder for the job, they failed to get the contract because none of the structural steel producing companies would furnish the steel unless they themselves fabricated and erected the job. Mr. Koch testified that:

> "General Bragdon told me that Colonel Heavy had been in contact with Bethlehem Steel and American Bridge, and they told him they would not bid on the furnishing of the steel if the erection was taken out, and American Bridge and Bethlehem Steel, since they are the suppliers of the steel and they had been the only two outfits capable of furnishing that tonnage, eliminated all the rest of the fabricators."

The Army engineers who were in charge of building the hospital had contacted seventeen fabricators of structural steel, but none of these could provide enough steel to bid on a job like the Brooklyn hospital.

Similar complaints made to the Senate Small Business Committee were voiced by the Heron-Tood Construction Company, erectors of steel structures in Arlington, Virginia and the Roslyn Steel & Cement Company, a steel fabricator and warehouse in Washington, D.C. They, too, complained of the fact that the cream of construction work was siphoned off by the large steel companies, and that they could not get sufficient quantities of steel to bid on desirable jobs. These jobs were generally taken by one of the large companies. The smaller companies had to be contented with the relatively small jobs that the large companies were willing to forego.

SOME CASES

One of the most interesting cases and examples of abuse resulting from the integration of steel companies into the fabrication field took place on the Pacific Coast. On July 15, 1952, the Independent Iron Works, Inc., an Oakland, California steel fabricator, entered into a contract for the fabrication and erection of 7,000 tons of steel for the super-structure of the Thirteenth Street viaduct in San Francisco, California. Allotments for approximately 4,800 tons of plate and 2,200 tons of structural steel shapes were issued by the National Production Authority for this project.

There are three sources of supply of structural steel on the Pacific Coast. The Kaiser Steel Corporation, which as of January 1, 1951, had the capacity to produce 60,000 net tons of structural

[7] Hearings, Senate Small Business Committee, 80th Congress, p. 1909.

steel per year is the smallest source.[8] The other two sources are Bethlehem Pacific Coast Steel Corporation and two operating divisions of the United States Steel Corporation. The Kaiser Steel Corporation fulfilled its promise to deliver 1,900 tons of steel. Except for 703 tons of steel shipped by the United States Steel Corporation, Independent Iron Works, Inc., was unable to get a committment for any of the remaining 4,400 tons from either the United States Steel or the Bethlehem Pacific Coast Steel Corporations.

After waiting 11 months for their orders to be filled, Independent Iron Works, Inc., filed a complaint with the District Court of the United States charging violations of the antitrust laws and asking $15,480,000 for triple damages.[9]

The complaint charged the defendants with engaging in "an unlawful combination or conspiracy to restrain interstate trade and commerce in steel products and to defeat the purposes of the Sherman Act and the Clayton Act" by consistently pursuing a policy of vertical integration into the steel fabricating business "for the purpose of monopolizing both the manufacture and fabrication of steel,"[10] and thus compelling independent fabricators to compete with their own sources of supply. According to the complaint this policy of monopolization of the steel fabricating industry was being implemented by:

1. Denying raw materials to independent fabricators and favoring their own fabricating facilities in the allocation of unfabricated structural steel, in violation of the allocations made by the National Production Authority in accordance with the Controlled Materials Plan.

2. Engaging in conspiracy and collusion to get various jobs and dividing these jobs between themselves. In certain cases the defendants have even sublet parts of heavy tonnages to each other to make up for offsetting bids.

3. Following a practice in certain instances of not submitting a bid until independent fabricators have submitted their bids, then submitting a smaller bid than they would have if they were bidding without competition from the independents.

4. Representing to contractors on a large job that they are the only ones who, because of their ownership of rolling mills and fabricating facilities, can furnish and fabricate the required steel and asserting that the independent fabricators have no control over the supply of rolled steel and therefore may not be able to complete the job on time.

On the basis of the foregoing allegations, the Independent Iron Works, Inc. demanded judgment that the defendants, United States Steel Corporation, and Bethlehem Steel Corporation, et al., be restrained by injunction as follows:

1. From disposing of any steel or steel products to any of their subsidiaries, or others, except in accordance with allocations by the National Production Authority under the Controlled Materials Plan;

2. That defendants be enjoined from bidding through their subsidiaries on contracts in competition with independent steel fabricators;

3. That so-called subsidiaries of the defendants be dissolved and the defendants be enjoined from operating further by and through said corporations in connection with the said conspiracies . . . ;

4. That a mandatory injunction be issued against defendants (requiring that they) supply the plaintiff with steel in accordance with the priority numbers and allocations (of the N.P.A.) as alleged in the complaint.

Two similar cases of restraint exercised by the two major steel companies against independent structural steel fabricators on the Pacific Coast are reported in the July 1, 1953, edition of the **California Business Guide**, a West Coast

[8] **Iron and Steel Works Directory**, 1951.

[9] Northern District of California, Southern Division, No. 32835, filed June 16, 1953. See also Independent Iron Works, Inc. v. United States Steel Corporation, 141 f(Supp) p. 437.

[10] **Ibid.**, p. 438.

business news service.

In the first case, bids were opened for the construction of the Richmond-San Rafael Bridge in December, 1952. The highest bid of $30,048,850 was made by the Bethlehem Pacific Coast Corporation. The second highest bid of $28,072,990 was made by the American Bridge Company, an operating division of the United States Steel Corporation. The low bid of $21,099,319 was submitted by a syndicate made up of independent steel fabricator Judson Pacific-Murphy, and general contractors, Peter Kiewit and John Soda. After submitting the low bid and getting the contract to construct the Richmond-San Rafael Bridge, the fabricators Judson Pacific-Murphy were faced with the problem of obtaining the necessary structural steel. They solved this problem by turning a large percentage of the fabrication work over to the two major steel producers.

This raises an interesting question. How is it that the Bethlehem Pacific Coast Corporation, which bid $9 million more than Judson Pacific-Murphy, and the United States Steel Corporation, which bid $7 million more than the independent fabricating firm, could profitably furnish and also fabricate a large portion of this steel on a subcontracting basis and still leave a profit for the successful bidder, Judson Pacific-Murphy?

The **California Business Guide** reports that the answer, according to industry sources, lay in the fact that the two highest bidders were "out to cut up a melon between themselves" and, according to these sources, were taken by surprise when they found themselves up against a third bidder.

In the second case reported by the **California Business Guide**, the Linell Steel Company submitted the low bid for the construction of a viaduct over the Dominguez Channel on the Los Angeles River Freeway. Linell is reported to have "experienced difficulty with steel deliveries until it subcontracted the steel fabrication to Bethlehem Pacific Steel Corporation."

The big question, of course, is how do the integrated firms know when independents are going to bid? The **California Business Guide** reports that according to certain "industry sources":

> "Bidders on public contracts must furnish performance bonds. Such bonds are readily available from surety companies for outfits with the resources of the United States Steel Corporation and the Bethlehem Pacific Coast Steel Corporation.
>
> For independent steel fabricators, however, the story is different. On large contracts, the independent must shop for performance bonds. The bonds are usually written on the basis of ten times its assets, and if trouble is anticipated, the ratio may be reduced in half.
>
> The bond shopping takes time and serves as a tip-off to the major producers that they face competition on a bid.
>
> If they are confident an independent competitor will fail to make bond, the major producers allow their original bids to stand. If not, substitute bids are entered, lower than the original one. Sometimes a hint may be dropped in surety circles that an independent competitor may have trouble getting steel delivery in time to complete the contract.
>
> In the case of the Richmond-San Rafael Bridge, trade circles saw the two major producers were sure they had the field to themselves; they believed no independent steel fabricator would be able to secure a performance bond.
>
> But they were mistaken. Backed by the resources of the two general contractors Peter Kiewit and John Soda, the independent steel fabricator, Judson Pacific-Murphy, was able to make bond quickly and without advance notice to the two major steel producers."

Some Analytical Comments

These cases illustrate that if fabrication operations are more profitable to integrated steel producers than steel operations, the reason for this lies not in technological considerations but rather in the control over steel supplies that enables the integrated producers to exert economic power over their fabricator rivals. This, of course, is denied by the integrated steel firms that have been

acquiring fabrication facilities.

They maintain that their motive for acquiring fabrication facilities is to acquire a guaranteed market for their steel products during periods of low steel demand. Their own fabrication facilities provide a market in which sales of steel products may be made without having to resort to selling efforts, promotional costs, or price concessions. But why do the larger firms find it necessary to go into the fabrication field when the small firms do not find it necessary to do this? Perhaps the answer lies in the fact that the smaller producers can increase their sales by shading prices without upsetting the price structure of the industry. If the larger companies were to try to increase sales substantially, they would cause the price of steel products to fall considerably. This method of attracting sales would most likely prove to be unsatisfactory in view of the fact that the demand for steel is probably inelastic over the relevant range of prices, and falling prices would not result in an increase in total revenue.

The smaller producers are therefore in a strategic position in that they can make inroads into sales of the larger companies by shading prices, whereas the larger companies cannot compete price-wise without bringing about an appreciable decline in prices. Certainly, the dominant firms can make reprisals against price raiders by open price wars, but this would prove costly to all concerned. In order to avoid this the larger firms guarantee markets for their own steel output by acquiring their fabricating plants. They thereby not only guarantee a market for their steel products during periods of low capacity steel operations, but at the same time guarantee a source of raw material supplies for their fabricating establishments during periods of "tight supply" in the industry. As early as 1931 Mr. H. A. Fitch, President of the Kansas City Structural Steel Company pointed out that approximately 50 percent of structural steel fabricating capacity was owned by the "two leading rolling mills." He accused these mills of using their fabricating facilities as a weapon against their competitors in the steel industry as well as in the fabricating industry. Among the claims, Mr. Fitch accused the mills of the following practices:

1. The use of their fabricating facilities as a guide for selling plain materials at prices below the accepted margin. [In the period of steel shortage they reversed the procedure and obtained a higher effective price.]
2. The use of their fabricating facilities as a club to force the independent fabricators to purchase more of their materials from the fully integrated producers.
3. The use of their fabricating facilities as a club to retaliate against other rolling mills for supposed or imaginary encroachments.[11]

SUMMARY AND CONCLUSIONS

Mass production and large-scale industry is the modern technological and organizational manifestation of the principles of specialization and the division of labor. From the economic standpoint, vertical integration may be an extension or a denial of these principles. Technological advantages of vertical integration in the steel industry stem from the economy of fuel and transportation costs. These economies are applicable to the stages of steelmaking from the blast furnace to the rolling mills but do not extend to the fabrication stages of production.

Steel fabricators have repeatedly complained of being subjected to the monopolistic power of the integrated steel companies. These complaints have been voiced during periods of steel shortage as well as during periods of excess capacity. Similar complaints have not, however, been voiced by smaller steel producers. The evidence examined here is by no means conclusive. It leads to the suggestion that monopolistic control may be one of the dominant motives behind the forward integration of steel mills into fabrication lines.

[11] H. A. Fitch, op. cit.

Toward the Other-Directed Enterprise

by KARL H. STEIN*

Historically the corporation appears to have undergone a reorientation of control sources from tradition-direction, to inner-direction, to other-direction. What may be a questionable trend in individual attitudes, however, may have become a source of renewed strength for the enterprise in line with its broadened role in a world of accelerated change. This article develops these concepts and analyzes the forces responsible for these trends.

THE sociologist, David Riesman[1] distinguishes between tradition-directed, inner-directed, and other-directed people and societies. Tradition-directed people and societies function within a stable framework of social practices. Cultural conditioning has narrowed individual responses primarily to adaptation and discourages innovation. Culture controls behavior minutely. The individual has a well-defined functional relationship to other members of the group. Such a status society existed, for example, in pre-capitalist Europe.

Inner-Direction

With the dissolution of feudal society, tradition-direction gave way to inner-direction. Under the impact of exploding populations, receding geographical horizons, and revolutionizing production technologies and expanding markets, a new type of character was called to the fore to cope with accelerating change. The condition of instability demanded greater initiative and ability to make decisions.

> "The source of direction for the individual is "inner" in the sense that it is implanted early in life by the elders and directed toward generalized, but nonetheless inescapably destined goals."[2]

While the individual faces a choice of his basic goals such as wealth, power, knowledge, virtue, and the like, the means to attain these goals are limited by the group associations into which society becomes increasingly stratified.[3] The psychological gyroscope, implanted by parents and other authority figures, keeps the individual's balance between his chosen goals and his environment.

Other-Direction

The expansionist psychology, partly triggered by population pressures on resources which were typical of the inner-directed society, became less meaningful as production capacity caught up with the less rapidly increasing population. The psychology of scarcity was replaced by one of abundance, and sources of control were modified. Other-direction began to supersede inner-direction. Material abundance and increased leisure were enjoyed at the expense of living in a more centralized, more rigidly organized metropolitan society. In a shrunken world agitated by the contact of races, nations, and cultures, other people became increasingly the problem. The internal gyroscope had to be replaced by a new psychological mechanism. The latter's functioning is predicated upon society's greater literacy and loquacity. Relations with the outer world and with oneself, as well as political events, are experienced through a screen of words put out by the mass media of communications.

> "Contemporaries are a source of direction for the individual — either those known to him or those with whom he is indirectly acquainted through friends or through the mass media . . . (while) the goals toward which the other-directed person strives shift . . . the process of paying close

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[1]David Riesman, **The Lonely Crowd**, Yale University Press, New Haven, 1950.

[2]**Ibid**, p. 15.

[3]Cf. J. R. Commons, **Economics of Collective Action**, MacMillan, New York, 1950, **passim.**

attention to the signals from others remains unaltered throughout life."[4]

In short, other-direction involves "exceptional sensitivity to the actions and wishes of others."

> "While all people want and need to be liked by some of the people some of the time, it is only the modern other-directed types who make this their chief source of direction and chief area of sensitivity."[5]

Sanctions for Conformity

The distinction between tradition-direction, inner- and other-direction can be clarified further by citing the sanctions assuring behavioral conformity under each of these conditions. In the tradition-directed society, the sanction is the fear of being **shamed.** In the inner-directed society, it is a **guilt feeling** engendered by deviation from the path which early authority figures have prescribed.

The prime psychological lever of the other-directed person is a diffuse **anxiety.** He is outwardly oriented like the tradition-directed person; but his environment is much wider, more complex, and unstable. The inner-directed person's relative insensitivity to others makes him capable of 'going it alone' and feeling 'at home abroad.' The other-directed person is at home everywhere and nowhere, that is, he is "capable of superficial intimacy and response to everyone."[6]

The Tradition-Directed Enterprise

Social sub-groups often tend to reflect the characteristics of their millieu. The business enterprise, as a purposive economic organization, is no exception. In the pre-capitalist and petty capitalist era, business was, on the whole, a tradition-directed entity. Relations between processors, resellers, and customers were almost as close as those which prevailed among kinship groups in the typical tradition-directed society. Custom ruled and customary norms were adhered to under the sanction of social and economic ostracism, whether in standards of craftsmanship, prices, wages, or local market-sharing agreements. Business enterprise was the habitat of the wary. The adventurous turned to politics or professional soldiering. Many European economies were rigidly structured in this fashion as late as the close of the 17th century.

The Inner-Directed Enterprise

Expanding geographic horizons and technological frontiers helped to produce the new climate of inner-direction. The new entrepreneur had received his social bearings from childhood in the religion of hard work and a frugal standard of living which permitted capital accumulation and business expansion. He could afford to scorn customers, resellers, and employees alike, for he had risen to his position of economic dominance by his own efforts and opportunity still proliferated for those who wanted to court it.

Production was a matter of precariously harnessing old forces of nature to new processes and equipment. Consequently, the internal organization of the enterprise was strongly production-oriented. Customers had to be grateful for the benefits of enterprise venturing on arduous paths of technical innovation. Where resellers were used, their only function was to dispense the gifts of the new industrial awakening to a hungry market at modest profits to themselves. The same paternalism on the part of employers carried over into their relations with employees. It was considered "good" for them to labor from before dawn until after nightfall in the mills and mines to get their modest share of the prosperity. The only guilt feelings of these early enterpreneurs were a result of their not living up to their code of continuous personal growth and organizational expansion.

Toward the end of the 19th century several developments occurred which tested the inner-direction of the grow-

[4] Riesman, op. cit., p. 22.
[5] Ibid, pp. 22-3.
[6] Ibid, p. 26.

ing entrepreneur group. The transportation revolution had opened up new markets and extended the old. Entrepreneurs then had to compete seriously with each other to hold their own. The exploitation of growing markets involved an investment which demanded some protection from the rough winds of competition. Economically disadvantaged groups began to organize into pressure and protest groups such as the Populist, Granger, and Union movements. These forces were beyond the capacity of the then conventional pattern of direction. A new course had to be set. It was founded on the live-and-let-live attitude toward competitors characteristic of the early merger movement. Not surprisingly, finance was beginning to become a favored function in the counsels of top management. Employer paternalism turned into union-baiting. Except for some of the early department stores, resellers generally remained in a dependent position **vis-a-vis** their suppliers, and customers were largely ignored.

THE TREND TOWARD OTHER-DIRECTION

This behavior called forth a series of statutes such as the antitrust laws which attempted to maintain competition and reorient it to serve the consumer, to protect labor and to help some resellers. However, when these laws were enacted, inner-directed entrepreneurial behavior had already lost much of its pristine force.[7] This may have been due to the fact that the second generation of big entrepreneurs was taking over to conserve and consolidate previous gains. The sheer size of some organizations made them at once more inflexible and vulnerable to outside criticism. Finally the statutes themselves were manifestations of a changing social morality which became skeptical about the Horatio Alger mythology.

Taylorism may have been largely manipulative in its attitude toward employees.[8] But it set the stage for breaking down the inner-direction of management by formulating objective standards for industrial production and organization. It took the trauma of the Great Depression to undermine entrepreneurial faith in inner-direction. Management thinking veered to other-direction. On the brink of a social revolution, at the mercy of an economic holocaust beyond its control and in the midst of international turbulence, management sought guideposts to orient its direction in its less than promising future. It was a period of stocktaking in which human relations and marketing experts gained the ear of top management.

Many of the changes in the making during this period were initiated by forces external to the enterprise — by legislation and self-organization of various group interests. But apart from these pressures, management often assumed a new viewpoint on its own volition. Thus viable relations with organized labor, based at least on accommodation instead of active opposition, were no doubt encouraged by labor legislation. But for the first time, employees were recognized as potential customers and word-of-mouth advertisers of the product they helped to make, and the union label became a desirable trademark. Stockholders who had been relegated to a **rentier** role were again wooed, in part because they enjoyed better legal protection. The consumer movement helped to re-enfranchise the customer; but management actively sought consumer reactions by means of market surveys. Creating a favorable corporate image became a sound investment.

Resellers banded together in corporate and voluntary chains and thus forced manufacturers into a more balanced

[7] Cf. Joseph Schumpeter, **Capitalism, Socialism and Democracy**, Harper & Co., New York, 1950, **passim.**

[8] F. W. Taylor, **The Principles of Scientific Management**, Harper Brothers, New York, 1911.

bargaining relationship. But price protection guarantees, cooperative advertising allowances and resale price maintenance contracts bore witness to the manufacturers' growing interest in channels of distribution.

Large manufacturing corporations proudly hailed the contributions which small suppliers made to their operations. Thus, whether in its relations with customers, stockholders, resellers or suppliers, management exhibited that growing sensitivity to the actions and wishes of others which is typical of the other-directed orientation.

CONCLUDING OBSERVATIONS

The three types of orientation, tradition-direction, inner-direction, and other-direction may co-exist in various degrees of purity in any given historic era or phase of individual company growth. Thus, tradition-direction may be associated with periods during which some major handicap — social, psychological or economic — hobbles progress. In the case of an individual enterprise it may be associated with direction by the aging founder. Similarly one might expect most business leaders in an age of explosive deepening and lengthening of capital growth to be inner-directed. But an individual business or industry may pass through an expansion spurt on inner-direction during an era when most of the rest of the business community has reached secular stability and maturity and tends basically toward other-direction.

In general however, the inner-directed enterprise with a management narrowly intent on ruthless profit maximization and impervious to the claims of the several groups which contribute to its well-being, is passing. The other-directed corporation appears to be taking its place. Other-direction may be a dubious trend in individual attitudes. It is a boon to business. A world of shrinking time-distances and expanding space explorations, in which a stricter code of collective conduct becomes a condition of survival, demands better attunement of corporate leadership to the interests of all those aiding profitable business growth as a prerequisite for the fulfillment of its social and institutional role in our society.

The 1958 Congressional Elections: A Brief Appraisal

by WILLIAM J. McKENNA*

This article is a brief analytical commentary on the results of the 1958 Congressional elections, with some observations on their implications for 1960.

THE landslide victory of the Democratic party in the 1958 Congressional elections far exceeded that of the Democratic party in the mid-term elections of 1954. In that year the Congressional elections were extraordinarily close. The Republican party suffered a net loss of only one Senate and 18 House seats. (See Table 1.) But in the 1958 Congressional elections, the Republican party lost the unprecedented total of 13 Senate seats. Not since 1910 has the Republican party lost as many as 9 Senate seats in a mid-term Congressional election. Even in the politically disastrous mid-term Congressional election of 1946 the Democrats lost only 12 Senate seats.

The worst defeat for either party in the House since 1930, when the Republican party lost 50 seats, was the Republican party's loss of a total of 47 seats this year. Even such a Republican jurisdiction as Vermont elected a Democrat to the House of Representatives for the first time in 108 years. A tidal-wave of Democratic votes in Connecticut carried all of the six Democratic Congressional aspirants to victory.[1] California, Indiana, and Pennsylvania also elected additional Democrats to the House of Representatives.

TABLE 1

Number of Senate and House Seats Lost by the President's Party in Mid-Term Congressional Elections, 1870-1958

	Losses of Congressional Seats in Mid-term Elections[1]			
	Senate[2]		House of Representatives	
Year	Republican	Democrat	Republican	Democrat
1870	-4	--	-45	--
1874	-4	--	-85	--
1878	-6	--	-10	--
1882	+1	--	-29	--
1886	--	+3	--	-14
1890	+8	--	-78	--
1894	--	-5	--	-113
1898	+6	--	-19[3]	--
1902	+3	--	-11[3]	--
1906	+3	--	-28	--
1910	-9	--	-58	--
1914	--	-4	--	-61
1918	--	-8	--	-26
1922	-7	--	-76	--
1926	-7	--	-10	--
1930	-8	--	-50	--
1934	--	+10	--	+9
1938	--	-6	--	-71
1942	--	-9	--	-45
1946	--	-12	--	-55
1950	--[4]	-5	--	-28
1954	-1[5]	--	-18	--
1958	-13[5]	--	-47	--

Source: U.S. Department of Commerce, **Historical Statistics of U.S., 1789-1945,** Washington, D.C. 1949, Series P50-P56, p. 293; **Gallups' Political Almanac,** 1952, pp. 60, 65; **New York Times,** November 4, 1954, and November 5, 1958.

[1]Comparisons are with the Congressional seat totals of the preceding presidential elections, third parties excluded.

[2]After 1913 all United States Senators were elected by popular vote by virtue of the 17th Amendment.

[3]The Democratic Party increased its total seats by 27. Thus, both parties were affected by the Reapportionment Act of 1901.

[4]Senator Morse of Oregon was elected as a Republican in 1950. Therefore, for purposes of comparison, he is counted as a Republican. However, he voted for a Democratic organization of the Senate in January, 1955.

[5]The 1958 Senate and House Republican losses include those of the Maine election of September, 1958. They do not include the results of the Alaskan election.

The only consolation prizes which went to the Republicans were the Rockefeller-Keating victories in New York, the unexpected victory of Hugh Scott in Pennsylvania, the re-election of the conservative Senator Barry Goldwater in Arizona, and the election of Christopher DelSesto in Rhode Island. Each of these Republican victories ran contrary to the tide and each was caused by special local

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[1]The Democratic victory was most impressive in view of the fact that five of the six Republican Congressmen from Connecticut had been elected in 1956 with a percentage of total vote varying from 60 to 68 percent.

factors not present on a national basis.[2]

Notable features of the 1958 Congressional election were the overwhelming majorities given Senators Kennedy of Massachusetts and Symington of Missouri — both prominent candidates for the Democratic presidential nomination in 1960.[3]

The defeat of Senator Knowland of California apparently removes him from the list of possible Republican candidates for President in 1960. In that same vein, the victory of Rockefeller in New York has compromised the position of Vice-President Nixon as the sole Republican possibility for the presidential nomination in 1960.[4]

In view of the landslide nature of the 1958 Congressional election the following conclusions appear to be particularly significant:

General Conclusions. The "liberal philosophy" is on the march in most of the nation. Although this liberalism is more characteristic of the Democratic candidates who were elected, there were notable successes for several candidates who espoused "modern Republicanism" in a vigorous, effective campaign.

In spite of the extent of the victories of the Democratic party throughout the nation, the Republican party polled 44 percent of the total vote in the states which elected United States Senators. This indicates the important residual strength of the Republican party. There was, however, little coat-tail effect of the campaign efforts of the President or Vice-President in the 1958 mid-term election.

Political Conclusions. In the 1958 mid-term Congressional elections it is evident that excellent candidates on the top of the ticket carried the rest of the party candidates to victory in many states. This trend was aided by the action of the independent voter which proved to be important in many states. Considerable splitting of tickets also characterized the voters' actions in this election. This is indicative of the declining force of "boss rule" — for it was repudiated in important areas of the country. Voters rewarded some Senators, Congressmen, and Governors with re-election on the basis of a good record while in office.

The Democrats were able to capitalize in certain states on the farm discontent, recession, unemployment, high-cost-of-living, right-to-work, foreign policy, and presidential leadership issues. In other states, however, local issues were more decisive. In several states the voters seemed to have reacted differently to the same national issues. Above all, it is clear beyond doubt that aggressive campaigning is a political necessity in a mid-term election and that political campaigning is a continuous, all-year-round proposition. The tremendous success which labor had as a political force in this mid-term election shows this to be true. It was also evident in this election that labor is an increasingly effective force in state and local elections. Finally, the striking reversals in the West suffered by the Republican party indicates that the balance of political power is gradually shifting to the West. This will have important consequences in future years.

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[2]The Rockefeller-Keating victory was attributed to the strong, fresh personality of Mr. Rockefeller and the appeal of his "modern Republicanism," on the one hand and the dissatisfaction engendered by the role of Tammany boss De Sapio in the nomination of Frank Hogan, on the other. Senator Hugh Scott's victory in Pennsylvania was aided by the apparent discontent with Governor George M. Leader and his tax and other policies. The victory of Mr. DelSesto in Rhode Island was partly attributed to the fact that he had really been denied a victory in 1956 by a court ruling which invalidated 4,954 absentee and shut-in votes which, if counted, would have made him Governor then by 427 votes. Other Republican victories in Oregon, Delaware, and Maryland were not unexpected.

[3]Senator John Kennedy was elected in 1952 by only 70,737 votes (51.3 percent). In 1958 he was elected by a majority of over 864,000 (nearly 67 percent)—the greatest majority ever given a Senatorial candidate in Massachusetts. Senator Symington also substantially increased his majority in 1958 over 1952.

[4]The opinion has been expressed in some circles that the overwhelming election of Mr. Rockefeller was in part due to the hope that he would become Mr. Nixon's rival for the Republican nomination for President in 1960.

TABLE 2

Outcome of Presidential Elections, Following Mid-Term Elections in Which the Presidents' Party Lost 40 or More Congressional Seats 1870-1956

	Number of Seats Lost, House of Representatives		Outcome of Next Presidential Election			
Year	Republican	Democrat	Republican	Year	Democrat	Year
1870	-45	--	Won	1872	---	--
1874	-85	--	Won	1876[1]	---	--
1894	--	-113	---	--	Lost	1896
1910	-58	--	Lost	1912[2]	---	--
1914	--	-61	---	--	Won	1916
1922	-85	--	Won	1924	---	--
1930	-50	--	Lost	1932	---	--
1938	--	-71	---	--	Won	1940
1942	--	-45	---	--	Won	1944
1946	--	-55	---	--	Won	1948
1958	-48	--	---	--	---	--

Source: U.S. Department of Commerce, **Historical Statistics of the U.S., 1789-1945**, Washington, D.C. 1949, Series P50-P56, p. 293; **Gallups' Political Almanac, 1952**, pp. 60, 65; **New York Times**, November 4, 1954, and November 5, 1958.

[1]The 1876 election was the disputed Hayes-Tilden election. Historians are of the opinion that the 1876 election was in reality a Democratic victory, and that the commission award of the contested electoral votes to the Republican slate was pure partisanship.

[2]The Democratic victory in 1912 was the direct result of the Taft-Roosevelt split.

There exists a danger that the Democratic party may interpret the decisive victory in the 1958 Congressional elections as a sure sign that they will win the 1960 Presidential election. One theory is evident in politics: it is that nothing is certain. The Truman victory in 1948 taught the Republicans that. In 1946 the Democrats lost 12 seats in the Senate and 55 in the House, and the Republicans were certain that they would win in 1948. Even the hopes of the Democratic party leaders were less than sanguine. But history shows that it is not too unusual for the incumbent party to suffer heavy losses in the mid-term elections and still win the subsequent presidential election. (See Table 2.) The Republican Party lost 85 House seats in 1922, but won the election of 1924, and the Democrats lost 71, 45, and 55 House seats in 1938, 1942, and 1946, and still won the subsequent presidential elections. This is not a prediction for 1960, but rather it is an observation that much can happen to change the outlook between the mid-term and the presidential election.

CONCLUDING OBSERVATION

The overwhelming victory of the Democratic party in the 1958 Congressional election poses a challenge and a problem to the rival party in the next two years. The Democrats must be on their best political behavior. They must pursue policies that will continue to win popular appeal in the North, East and West. They must meet the challenge of

Southern leadership. Their very majority brings with it great risks. The Republican party, on the other hand, must meet the challenge of changing times. They must realize that Congress will — barring a major political miracle — still be Democratic, no matter who wins in 1960.[5]

[5]In order for the Republicans to win control of the U.S. Senate in 1960, this party would have to win a total of 15 or 16 seats (depending upon the November 25 vote of Alaska), and 66 seats in the House of Representatives. In 1952 the Republican party barely won control of the Senate and House of Representatives, and in 1956 they lost both Houses despite a landslide victory by President Eisenhower.

In 1960 there will be 21 Democratic Senate seats at stake against 11 for the Republicans, but 10 of the 21 Democratic Senate seats are in the "safe" South and 3 of the 21 are in the normally Democratic border states.

The Southern states which will elect a U.S. Senator in 1960 (incumbents are Democratic) are: Alabama, Arkansas, Georgia, Louisiana, Mississippi, North Carolina, Oklahoma, South Carolina, Texas, and Virginia. These are safely Democratic.

Border states holding elections in 1960 include: Kentucky, Tennessee, New Mexico. Other states with Democratic incumbents include: Delaware, Illinois, Minnesota, Montana, Oregon, Rhode Island, and West Virginia.

Republican incumbents will be up for reelection in 1960 in Colorado, Idaho, Iowa, Kansas, Maine, Massachusetts, Nebraska, New Hampshire, New Jersey, and South Dakota. Some of these Republican states were marginal (less than 55 percent of the vote) in 1954.

If the liberal Northern wing of the Democratic party should split with the South on the vital integration-segregation issue during the next two years, then the Democrats would stand divided in the Presidential election of 1960. This could have many political consequences in the campaign for Senate and House seats as well as for the office of President of the United States.

Philadelphia Business Index

The September 1950 issue of the Bulletin presented a new index of general business conditions in the City of Philadelphia. This series, prepared and since maintained by Robert T. Kline, was designed to reflect economic activity exclusively within the boundaries of the City of Philadelphia. It was originally based upon a combination of statistical data representing (1) industrial electric power sales; (2) indexes of employment and employee-hours; (3) department store sales[1]; (4) bank debits[2]; and (5) total construction. Because the method of reporting certain data is under revision by the originating agencies, the change in average weekly hours worked and the monthly change in total employment in the Philadelphia metropolitan area, both prepared by the Department of Research of the Federal Reserve Bank of Philadelphia, have been substituted for (2) above. This is a temporary expedient to maintain continuity of the index. The original data series will be restored after revision.

The following table presents the index for the years 1939 through 1957, and by month from November, 1957.[3]

Index of General Business Conditions, City of Philadelphia, 1947=100

Year	Index	Month	Index
1939	73	1957	
1940	77	Nov.	130.0
1941	96	Dec.	127.0
1942	99	1958	
1943	106	Jan.	124.4
1944	106	Feb.	124.1
1945	98	Mar.	122.5
1946	100	Apr.	124.0
1947	100	May	124.6
1948	103	June	125.5
1949	97	July	128.3
1950	108	Aug.	133.4
1951	111	Sept.	132.4
1952	111	Oct.	132.0p
1953	119	Nov.	133.0e
1954	119		
1955	124		
1956	128		
1957	130		

p=preliminary

e=estimated. Based on currently published weekly indicators.

[1]The revised index of Department Store Sales, published by the Federal Reserve Bank of Philadelphia, has been used in the composite index since October, 1951. Beginning September, 1957, the new seasonally adjusted Department Store Sales series (1947 = 100), published by the Philadelphia Federal Reserve Bank, has been used.

[2]The revised Wholesale Price Index, all commodities, published by the BLS, is used beginning January, 1952 as a deflationary index for the Bank Debit Series.

[3]Kline, Robert T., "A Measurement of General Business Conditions in the City of Philadelphia." **Economics and Business Bulletin.** Temple University School of Business and Public Administration, Philadelphia, Pa., September, 1950, pp. 33-40.